

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 7904

BILL NUMBER: HB 1573

DATE PREPARED: Mar 02, 1999

BILL AMENDED: Feb 10, 1999

SUBJECT: Tax reciprocity with Illinois.

FISCAL ANALYST: Jim Mundt

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**FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL**

IMPACT: State

Summary of Legislation: (Amended) This bill permits the Department of State Revenue, with the approval of the governor and Budget Agency, after the review of the State Budget Committee, to enter into an agreement with the state of Illinois concerning income tax collections from nonresidents. It sets a maximum payment that Indiana may make.

Effective Date: July 1, 1999.

Explanation of State Expenditures:

Explanation of State Revenues: (Revised) This bill could result in a payment from the State General Fund if the amount measured by income taxes collected by Indiana from Indiana residents working in Illinois, with a reciprocity agreement, exceeds the amount collected by Indiana from Indiana residents working in Illinois and from Illinois residents working in Indiana, without a reciprocity agreement. Based on an agreement between Indiana and Illinois concerning methodology, any payment would be based on the calculation of taxes from the previous taxable year.

Current law provides that adjusted gross income tax imposed on nonresidents is not payable in Indiana if the nonresident's state of residence has a reciprocal tax exemption for Indiana residents in that state. Indiana has agreements with Kentucky, Michigan, Ohio, Pennsylvania, and Wisconsin. The agreement with Illinois was terminated by Illinois effective January 1, 1998.

The Indiana Department of State Revenue prepared a report dated March 1, 1999 entitled Indiana-Illinois Reciprocal Agreement. The report was required by HCR-5, 1998. A portion of that report described data concerning the number of Indiana taxpayers working in Illinois (23,006) and the number of Illinois taxpayers working in Indiana (12,760) in 1997. It also estimated the average wage for Indiana taxpayers working in Illinois (\$35,672.18) and Illinois taxpayers working in Indiana (\$25,873.33).

Using this data allows an estimate of the maximum payment obligation by Indiana to Illinois under this bill. This estimate requires the assumption that the methodology described in the March 1 report would be the one used should an agreement between the two states result from this bill. For this reason, this estimate should be considered as illustrative only.

Applying the formula described in this bill results in a maximum annual payment by Indiana to Illinois, assuming the data described in the report, to be:

Indiana tax collected from Indiana residents working in Illinois, if there is an agreement:	\$27.9 M
minus	
the sum of 1) Indiana tax collected from Indiana residents working in Illinois, if there is no agreement, \$3.3 M and	
2) Indiana tax collected from Illinois residents working in Indiana, if there is no agreement, \$11.2 M.	-14.5M
Maximum annual payment by Indiana to Illinois (based on described assumptions)	\$13.4M

The actual amount of the payment would be determined by the methodology agreed to by the states and would change each year, because this proposal requires any payment to be based on data from the previous taxable year.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: Indiana Department of State Revenue, Indiana-Illinois Reciprocal Agreement, March 1, 1999.